
MICROECONOMIC FOUNDATIONS FOR BUSINESS STUDIES

Period: a.y. 2023/24 - I sem.

Instructor:

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Course description

This course introduces the fundamental tools of microeconomics for studying strategic interaction and the provision of the incentives. The course is largely based on lectures, and it is ideally divided into three parts. The first part introduces cooperative and non-cooperative games and bargaining theory. The second part uses the lens of transaction costs economics and incomplete contracts to analyze asset ownership in (repeated) collaborations. The third part addresses the limitations of information asymmetries from a complete contracts perspective. The second major goal of this course is to expose doctoral students to conceptual and formal models at the intersection of strategy, applied economics, and organizational economics. Models are presented in detail with an emphasis on understanding the economic intuition. The course focuses on interfirm and intrafirm transactions, rather than on firms' market behavior, and follows modern strategy frameworks that emphasize the tension between value creation and value capture. Other classical areas of research having to do with competition, firms' market behavior, and the sources of competitive advantage will be covered in other PhD courses. This course also provides the basic tools needed for the course Strategic Interactions and Firm Behavior - 40430, taught by Prof. Fosfuri.

Course Material

The content of the lectures and the slides are the only required material for the exam. There is also a list of suggested readings that are meant to provide a range of perspectives and a flavor of the research in different areas in strategy and in economics. The slides and the readings will be made available on Blackboard.

Tentative list of topics

Part I

- Introduction to non-cooperative games: simultaneous, sequential, and repeated games.
- Introduction to bargaining theory: the strategic and the axiomatic approach.
- Introduction to cooperative games and biform games.

Part II

- Transacting in a world of incomplete contracts: TCE vs PRE.
- Asset ownership, control, and the bargaining landscape.
- Competition and cooperation in strategic alliances, teams, etc.

Part III

- Introduction to the theory of incentives.
- Contracting under hidden action.
- Contracting under hidden information.

Assessment Methods.

Effective class participation includes attendance and making an active and constructive contribution to the discussion, asking questions, making constructive comments, and having a positive attitude toward learning. As we go through the course, students will participate to team assignments with the objective of applying the models developed in class for making sense of specific economic situations.

Students will be evaluated as follows:

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| Class participation: | 20 points |
| Team assignments: | 30 points |
| Final written exam: | 50 points |

Faculty Bio.

Claudio received his PhD in Economics from Toulouse School of Economics and he is interested in organizational economics, industrial organization, and more broadly in the use of formal models in strategy. His research has been published in the Academy of Management Review, Strategic Management Journal, Organization Science, and other international journals. Claudio is currently an Associate Editor of the Strategic Management Journal and is in the Editorial Board of Organization Science.



Suggested complementary readings

Intro: formal models in strategy

- Csaszar, 2019. Certum Quod Factum: How Formal Models Contribute to the Theoretical and Empirical Robustness of Organization Theory. *Journal of Management*.
- Hannah, Tidhar, Eisenhardt, 2020. Analytic models in strategy, organizations, and management research: A guide for consumers. *SMJ*.
- Knudsen-Levinthal-Puranam, 2019. Editorial: A Model Is a Model. *Strategy Science*, 4-1.
- Makadok, 2022. Guidance for AMR authors about making formal theory accessible. *AMR*.
- Moorthy, 1993. Theoretical Modeling in Marketing. *The Journal of Marketing*, 57-2.
- Saloner, 1991. Modeling, game theory, and strategic management. *SMJ*.
- Varian, 2016. How to Build an Economic Model in Your Spare Time. *The American Economist*, 61-1.

Part I: Non-cooperative games and bargaining

- Branderburger-Stuart, 2007. Biform games. *Management Science*, 53-4.
- Dufwenberg, 2011. Intro to Game theory. *WIREs Cogni Sci*, 2: 167–173.
- Gans-Ryall, 2017. Value capture theory: A strategic management review. *SMJ*
- Grennan, 2014. Bargaining Ability and Competitive Advantage: Empirical Evidence from Medical Devices. *Management Science*, 60.
- Jackson, A brief introduction to the basics of game theory. Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1968579
- Osborne-Rubinstein, 1994. A course in game theory. Available at <http://gametheory.tau.ac.il/arielDocs/>
- Osborne-Rubinstein, 2005. Bargaining and markets (Part 1). Available at <http://gametheory.tau.ac.il/arielDocs/>
- Ross, 2018. Using cooperative game theory to contribute to strategy research. *SMJ*

Part II: Incomplete contracts and alliances

- Aghion-Tirole, 1994. On the management of innovation. *Quarterly Journal of Economics*, 109.
- Coase, R. 1937. The nature of the firm. *Economica*, 16.
- Diestre-Rajagopalan, 2012. Are all `sharks' dangerous? New biotechnology ventures and partner selection in R&D alliances. *SMJ*.
- Grossman-Hart, 1986. The costs and benefits of ownership: A theory of vertical and lateral integration. *Journal of Political Economy* 94.
- Hoffmann-Lavie-Reuer-Shipilov, 2018. Call for papers for a special issue on The interplay of competition and cooperation. *SMJ*.
- Lerner, 2016. Oliver Hart's Contributions to the Understanding of Strategic Alliances and Technology Licensing. Available at <http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780199826223.001.0001/acprof-9780199826223-chapter-15>.
- Panico, 2017. Strategic interaction in alliances. *SMJ*.
- Pharke, 1993. Strategic alliance structuring: A game theoretic and transaction cost examination of interfirm cooperation. *Academy of Management Journal*, 36.
- Tadelis, S. 2016. "Property Rights and Transaction Costs Theories". Available at <http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780199826223.001.0001/acprof-9780199826223-chapter-4>.

Part III: Theory of incentives

- Bowman-Swart, 2007. Whose human capital? The challenge of value capture when capital is embedded. *Journal of Management Studies*, 44(4).
- Coff. 1997. Human Assets and and Management Dilemmas: Coping with Hazards on the Road to Resource-Based Theory. *Academy of Management Review*, 22-2.
- Laffont, Martimort, 2002. *The Theory of Incentives* (chapter 2 and 4). Princeton University Press.
- Rajan-Zingales, 1998. Power in a theory of the firm. *Quarterly Journal of Economics*, 113.